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ABSTRACT

U.S. foreign aid efforts aimed at less-developed countries in the post-World War II world, such as humanitarian aid and development assistance, have not been very successful in improving international investment opportunities or contributing to self-sustaining economic growth in the poorer countries. Recent developments in Eastern Europe have led to persistent requests for aid from the United States to help with democratic reforms. Such requests are leading to increased competition for aid between Eastern Europe and long-time U.S. aid recipients, and thus are putting more pressure on existing programs. A real commitment to improving the effectiveness of U.S. developmental assistance requires fundamental changes in both laws and organizational structures. Several specific recommendations for changes in foreign aid programs are made based on the purposes and problems they face. Three separate and distinct purposes of the programs are identified: humanitarian aid, development aid, and security aid. The document includes a glossary, illustrations, questions for students and discussion groups, and an annotated reading list. (DB)

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by Nicholas Eberstadt

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The Author

NICHOLAS EBERSTADT, visiting scholar at the American Enterprise Institute since 1985 and visiting fellow at the Harvard Center for Population Studies since 1980, holds degrees from Harvard College, the London School of Economics and the Kennedy School of Government. He has been a consultant to the Agency for International Development, the World Bank and the Department of State and is the author of several books and numerous articles, which have appeared in such publications as *The New York Times, The Wall Street Journal* and *Commentary*.

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Introduction

In February 1989, as one of its first official publications, the incoming Bush Administration released a study on the past performance of, and prospects for, the U.S. foreign aid program. The report, *Development and the National Interest: U.S. Economic Assistance into the 21st Century*, had been prepared by the U.S. Agency for International Development (AID),* the office which had had principal authority for administering U.S. foreign assistance funds over the previous 28 years. Far from issuing a congratulatory self-assessment of a job well done, the report's conclusion posed a series of sobering questions. Reviewing the record of the past 40 years, it seemed to suggest that something had gone badly wrong with America's development assistance efforts:

> Somewhere between 1949 and the present, the original concept of development assistance as a transitional means of helping developing countries "meet their own needs" has been lost. . . .
>
> All too often, dependency seems to have won out over development. . . . Demands for development assistance seem only to increase; certainly they show no signs of abating.
>
> Meanwhile, only a handful of countries that started receiving U.S. assistance in the 1950s and 1960s has ever graduated from dependent status.

*Starred words are defined in glossary on page 62.

The troubled tone of the report seemed, in a way, to articulate a long-standing popular misgiving about U.S. foreign aid programs, evident for years in public opinion surveys. Since 1974, the Chicago Council on Foreign Relations has regularly polled the public about foreign policy goals. "Combating world hunger" has consistently been a top objective—typically higher, in fact, than "matching Soviet military power," or even "defending U.S. allies' security." Yet at the same time, the U.S. foreign aid program has remained steadily, and overwhelmingly, unpopular; no other government program, in fact, manages to evince such an unfavorable response or elicit such consistent calls for cutback. The American public, it would seem, is strongly of the opinion that the U.S. foreign aid program is today a highly flawed instrument for the expression of their considerable goodwill toward the impoverished and the vulnerable overseas.

There may be good reason for the current frustration with U.S. foreign aid policies. In the decades since 1949, when President Harry S. Truman (1945–53) first proposed technical assistance* as Point Four* of his inaugural address, America's foreign aid programs seem to have drifted far from their original purpose.

Yet despite the program's current unpopularity, and the continuing clamor in Washington about the urgency of Federal budget deficit reduction, foreign aid is unlikely to be abandoned as as instrument of American diplomacy in the foreseeable future. If anything, recent events have increased the timeliness of the issue of U.S. foreign assistance initiatives.

In Eastern Europe, for example, the "revolutions of 1989" have not only demonstrated a remarkable and unexpected erosion of Soviet power over areas previously subject to that authority, but have brought forth persistent calls for new aid bequests to help local populations seek paths toward freedom and prosperity. In the aftermath of the U.S. invasion of Panama and ouster of its dictator, the lawfully elected government immediately requested a major aid initiative to assist with local reconstruction. In Nicaragua, where the Communist Sandinistas lost a national election in February 1990 to a coalition of opposition parties, there is much that remains uncertain about the nature of the transition of

power; requests for foreign assistance, however, have already been made. At this writing, there is even debate over a possible U.S. aid program for the U.S.S.R.—the state whose hostility toward the United States and its allies essentially framed the terms of the "cold war" that lasted so much of the twentieth century.

Whether or not substantial new commitments to U.S. foreign aid programs are in the offing, of course, remains to be seen. Even without the debate that might attend any such attempt, however, intensified competition among potential recipients for existing foreign aid dollars focuses attention on the effectiveness of those programs already in existence.

To understand the current dissatisfaction with the U.S. foreign aid program, to assess some of the criticisms lodged against it, and to think about ways in which its effectiveness might be improved, it is necessary to review the history of this unusual—indeed, unique—American foreign policy initiative.

Portions of this HEADLINE SERIES *are drawn and/or condensed from Chapters 1, 2 and 6 of* Foreign Aid and American Purpose *by Nicholas Eberstadt and are printed with the permission of the American Enterprise Institute for Public Policy Research, Washington, D.C. The author would like to thank Elizabeth Blackshire for her assistance in editing the manuscript from which this book was drawn.*

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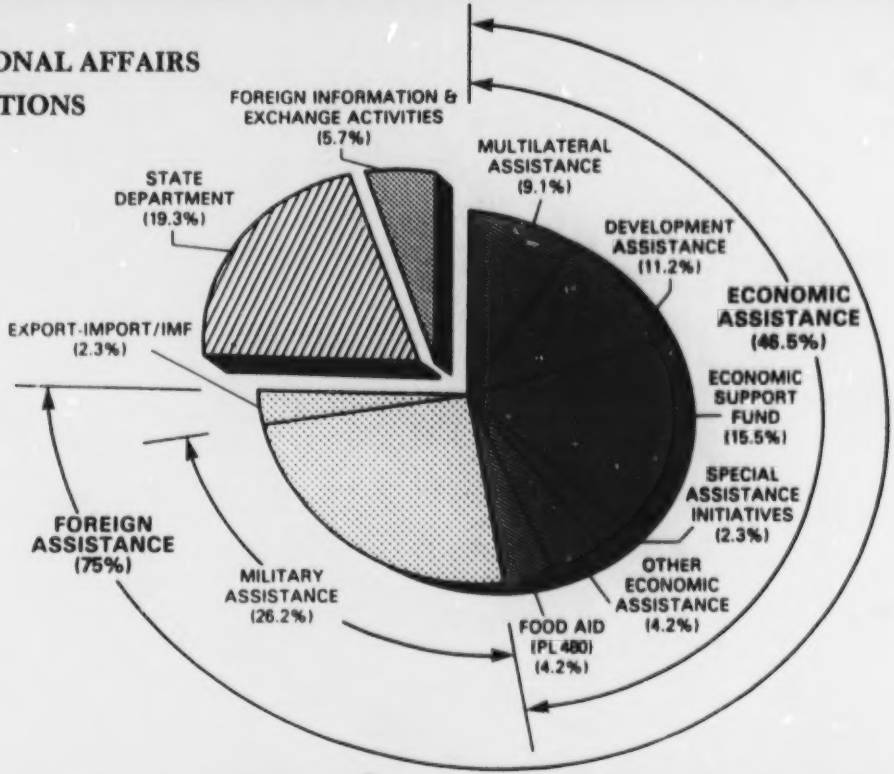

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Postwar Recovery and the Liberal International Economic Order

The men who first fashioned America's postwar policies toward the international economy and less-developed countries (LDCs)* were idealists whose vision had been tempered by hard times. Their ideas for rebuilding the world economy were shaped by their understanding of the causes of the Great Depression and by their knowledge of the international economic order that had existed before World War I.

The American architects of the postwar economic order attempted to replicate the most important workings of the international trade and finance system that had existed before 1914. The late nineteenth and early twentieth century was an era of widespread economic growth—not only in sovereign or imperial nations, but also in many colonies. This growth had been made possible by technical advances, and it was propelled by a dramatic expansion of trade and international flows of private capital, which served as conduits for the international transfer of information, productive knowledge and skills.

Toward the end of World War II, U.S. statesmen began work to create a liberal international economic order* in which it would

be possible to have, in effect, both bread and freedom: to capture the most beneficial economic workings of the trade and finance arrangements associated with The Age of Imperialism, and at the same time protect the weaker peoples of the world against imperial subjugation and anti democratic oppression.

The instruments devised to meet these objectives were, respectively, the two institutions established at the Bretton Woods conference* in 1944—the International Monetary Fund (IMF)* and the International Bank for Reconstruction and Development (IBRD, or World Bank)*—and the United Nations, established in San Francisco in 1945.

In laying a base for international economic progress, the IMF was perhaps the most important of these agencies. During the Great Depression, international trade had collapsed, in part because trading partners had been fearful of accepting payment in each other's currency. The IMF provided a mechanism for the international convertibility* of all members' currencies, in effect by establishing the U.S. dollar as the new medium of international trade. This guarantee removed an enormous risk to international trade, which had proved so dangerous between the world wars.

Investment as well as trade had been an engine of international progress in the earlier era. The World Bank was to attend to some of the risks of putting private capital to work in poor or devastated areas. The bank was charged with bolstering investors' confidence in the ability of countries to put capital from abroad to sound and productive use. The bank's articles of agreement outlined its mission succinctly: "facilitating the investment of capital for productive purposes"; promoting "private foreign investment by means of guarantees"; and "when private capital is not available on reasonable terms," supplementing private investment. The U.S. Treasury Department, which would in effect underwrite much of the World Bank's operations, shared this view of the bank's role. As one of its analysts wrote at the time of the Bretton Woods conference, "The bank would encourage private investors to undertake international lending by guaranteeing international loans *through the usual investment channels* and by participating

with private investors in such loans. *In exceptional cases*, where private capital is not available, the bank would make loans out of its own resources" (emphasis added).

The key to improving countries' access to international capital, the early statements of the bank explained, was their investment climate. This phrase referred to the economic and social policies promoted by the state—including its tax policies, its budget policies, its monetary and credit policies, its foreign exchange policies, its trade policies, its public investment policies, its legal system, and the extent of both formal and informal restrictions upon the ability of local peoples and foreigners to engage in various economic activities.

In his last address to Congress, President Franklin D. Roosevelt (1933–45) warned that "we cannot succeed in building a peaceful world unless we build an economically healthy world." Roosevelt's vision of postwar economic progress focused upon both the international political climate and the actions of individual countries. As he expressed it:

> The main job of restoration is not one of relief. It is one of reconstruction which must be largely done by local people and their governments. They will provide the labor, the local money, and most of the materials. The same is true for all of the many plans for the improvement of transportation, agriculture, industry, and housing that are essential to the development of the economically backward areas of the world.

Neither Roosevelt nor the men around him were hostile to the idea of foreign aid. They had devised the Lend-Lease program, by far the greatest foreign aid operation the world had ever seen (well over $200 billion in today's dollars). It was their conviction, however, that foreign aid policy should meet exacting standards. U.S. relief efforts during and immediately after World War II were conditioned by this understanding and proved to be largely successful.

Protracted war had destroyed the local economic base in many parts of Europe and Asia. Mass starvation seemed a real possibility in many areas; in the months after its defeat, for

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example, Germany's infant mortality rate was higher than Sahelian Africa's is thought to be today. To prevent a widespread loss of life, the United States helped organize the UN Relief and Rehabilitation Agency (Unrra).

Unrra was charged with providing "only those immediate relief needs which cannot be met out of the resources of the countries involved." Since it was understood that the danger of postwar famines was a temporary problem, Unrra's relief mandate was explicitly limited. Unrra made clear its intention to pull out after the first adequate harvest in an afflicted country—and kept its word. From 1943 to 1947 it supervised the efficient distribution of the equivalent in today's prices of about $12 billion in U.S. food and goods. By 1947 the threat of mass famine in non-Communist countries had been averted, and for the first (and possibly last) time in the UN's history, an agency was disbanded after successfully solving the problem for which it was created.

*The Marshall Plan**

America's next great application of public resources in foreign lands, the Marshall Plan, was likewise considered a resounding success. This recovery plan for Europe addressed a variety of heretofore disparate American concerns. In contributing to restoring the health of the West European economies, it created a natural bulwark against the imperialist ambitions of the Soviets; it strengthened the foundations of the postwar economic order; and it satisfied the American urge to assist endangered peoples overseas who shared U.S. ideals and values. (In retrospect, the Marshall Plan may have confused some people about the potentialities of foreign aid under less-extraordinary circumstances. Its unique marriage of strategic, economic and humanitarian objectives would later give rise to the notion that foreign aid naturally wedded these distinct, and often contradictory, concerns. Moreover, the rapid West European recovery was to mislead proponents of aid about the pace of progress which might be expected in underdeveloped areas, insofar as Western Europe was **restoring** itself to prewar levels of economic activity.)

Development assistance to low-income countries, a new and

radical idea in international relations, began in 1949 on the heels of the Marshall Plan. Unlike emergency relief, it was not framed in response to disaster. Unlike reparations, it was a state-to-state resource transfer prompted by volition, not indemnity. Unlike military aid or security assistance,* it was not meant, in any immediate sense, to express U.S. will in distant regions of the earth. Development assistance reflected the American desire that other people avail themselves of the good things the twentieth century had to offer, including the skills and knowledge that made affluence possible. This was to take the form of technical assistance in the early years of the aid program.

The idea of technical assistance—of fostering the ability of poor countries to deal with their own economic problems—received an enthusiastic reception from the world community. By the end of 1949 the UN had endorsed an international plan of action modeled directly on America's Point Four program, although more modest in resources and scope.

The leitmotif of development assistance in its first few years was the connection between the policies and actions of governments in poor countries and their economic consequences. The connection was taken to be inescapable and obvious. In alluding to the "shortage" of Western capital in the less-developed countries—a problem that agitated many leaders in Latin America, Asia and Africa at that time—President Truman's assistant secretary of state for economic affairs observed that "the real decision must be made by these countries themselves, since only they can decide whether they want our capital to participate in their development. If they want it, they must, in turn, create the 'climate' to attract it."

This perspective was not a matter of partisan dispute. In early 1953, an assistant secretary of state for economic affairs under President Dwight D. Eisenhower (1953–61) warned Congress that the limits to the effectiveness of our technical assistance were set by the attitudes of recipient governments. He said, "There is a strong tendency to build steel mills when the best economic interest of that particular country would be served by growing a little more food. . . . But the attraction of being self-sufficient, of

having these monuments of industry . . . seems to be so great that we have difficulties in getting them to understand wherein their own economic salvation lies."

Regardless of their professed political ideologies, these new regimes were almost uniformly preoccupied with augmenting the power of the state under their control. They were going long on steel and short on food; relying on trade where they must, but seeking autarky where they might. Development assistance—as the United States envisioned it—was not quite what the new, nationalist elites in less-developed countries were looking for. This would only become widely understood many years later.

By 1953, the United States had formed principles and operational rules by which to guide its foreign aid policies. It tried to separate overseas humanitarian aid from the economic interests of lobby groups at home, and it strictly separated grants (which were charitable) from loans (which were commercial). Perhaps most importantly, the U.S. government let it be known that there was a difference between military aid and development assistance, and that the demarcation was essential to the purposes and prospects of both programs.

Early Problems with the Aid Program

One by one, these precepts about foreign aid were to fall. A radical deviation from principle came over the issue of soft,* or subsidized, official loans to foreign governments. In 1946, U.S. authorities had resolved that concessionary loans to foreign governments would have no place among the techniques of American statecraft; such loans, it was felt, would create a dangerous and needless confusion between charity and commerce. After the first postwar soft loan, a large one to Britain to stabilize the sterling-based currencies, the U.S. National Advisory Council on Monetary and Financial Problems, which had sanctioned the offering, wrote: "It is the view of the council that the British case is unique and will not be a precedent for loans to any other country." Within 10 years, however, soft loans were becoming a preferred vehicle for U.S. foreign aid.

Soft loans seemed to vitiate the need for hard choices. Skeptical

inquiries from taxpayers over specific projects could be deflected by assurances that the United States expected to be fully repaid on its principal; foreign governments could be told that soft loans gave them great financial leverage, since the arrangement provided a large pool of working capital. Soft loans thus seemed to provide protection to those aid initiatives whose usefulness was most open to question, which were least justifiable and most likely to waste resources. Their very availability, moreover, cast commercial loans in a negative light—all the more so in countries whose governments were suspicious of, or hostile to, private capital from abroad.

In 1948 the president of the World Bank urged member governments not to fall into the trap of soft lending. But by 1959, the idea of a soft-loan facility at the bank was gaining acceptance; by 1961, the International Development Association (IDA)* had been established at the World Bank, with U.S. participation. (In 1943, a principal U.S. proponent of a world bank, Secretary of the Treasury Henry Morgenthau, expressed the view that the institution he was proposing would "scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms." IDA was true to the late secretary's wish only in the ironic sense that the sorts of projects it encouraged, and the terms under which it financed them, were generally unlikely to be attractive to overseas investors.)

The most fateful departure from previously enunciated principles of foreign aid, however, concerned the separation of military and development assistance. The Eisenhower years saw a profound shift in U.S. foreign aid patterns. Whereas military grants and political aid for beleaguered but friendly regimes had accounted for scarcely a sixth of U.S. foreign aid between 1949 and 1953, they made up over half of American bequests between 1953 and 1961.

Security assistance was a calculated response to a pressing problem. Shortly after the victory of the Communist troops over the Nationalist forces and the warlords on the Chinese mainland, North Korea attacked South Korea and drew the United States into war. Strengthening the defensive capability of the states in

the American alliance system seemed the surest way to deter further outside attacks. There was also a widespread threat in relatively open societies of internal subversion by armed, and generally antidemocratic, domestic groups. Security assistance successfully addressed this problem; it included not only military aid but also police training, political advice, covert activities and financial bequests meant to enhance political stability.

In the late 1950s and early 1960s security assistance, unlike development assistance, had widespread public support. To win acceptance of their overall foreign aid programs, U.S. statesmen began to draw on the legitimacy of security assistance to protect, and even conceal, development aid.

The process began with a change in legislation: the 1953 Mutual Security Act linked development aid to security assistance for the purpose of congressional appropriations. Even so, the two programs were kept operationally—and conceptually—distinct. This distinction was lost, however, during the Kennedy Administration. President John F. Kennedy (1961-63) argued that development aid **was** security assistance. As he put it, "I urge those who want to do something for the United States, for this cause, to channel their energies behind the new foreign aid program to help prevent the social injustice and economic chaos upon which subversion and revolt feeds." The new program to which he referred was that of AID, the organization which continues to supervise and to administer America's development programs in less-developed countries.

In attempting to broaden and strengthen the domestic constituency behind his aid program, President Kennedy had, perhaps accidentally, fundamentally altered the understanding of the purpose of development assistance. No longer was it a transfer of skills and a building of basic infrastructure so that governments of poor nations might better take advantage of the economic opportunities afforded them by growing international markets. It was now a program to quell domestic discontent in low-income regions—linking aid to stability through a series of syllogisms that ultimately equated rising living standards with diminishing political opposition against any given regime in any given poor

country. This attitude, at once cynical and naive, suggested that counterinsurgency and the diffusion of agricultural research were part and parcel of a single process, differing only in degree. In a sense, given this view of the world, Vietnam was an accident only waiting to happen.

The Vietnam War and Its Legacy

The Vietnam War had a profound effect on U.S. development assistance policies. Development assistance came to be dominated by Vietnam itself. By 1966, that one country was receiving over 43 percent of AID's worldwide development grants, and a similar portion of AID's talent, energy and personnel was being applied to problems in Vietnam. The war, moreover, prompted a drastic change in the understanding of development aid. A violence-rent agrarian society in which broad stretches of terrain were under the shifting control of contesting armies was hardly suitable ground for the sort of technical assistance and private investments that the Point Four program had sought to encourage. Development policies were adapted on the spot. The programs which evolved had little to do with "self-sustaining growth" or any of the other desiderata of an earlier generation of technical assistance policies. AID was drawn into such efforts as the "strategic hamlet" and the "civilian relocation" programs. While these programs may have served a justifiable military purpose, their results were almost the opposite of economic development. The day-to-day operational coordination between U.S. military personnel and AID officials that was expected in the field further blurred and extended AID's development obligations. By turning village and field into "free-fire zones," while feeding, clothing and housing the villagers who were dispossessed in the process, the United States was maintaining, and often improving, the people's material living standards even as the economic base which might sustain them was being destroyed.

There was a greater, more overarching, problem in Vietnam, which affected aid and everything else the U.S. government was attempting. The problem was, in the words of Senator Daniel Patrick Moynihan (D-N.Y.), that "the American government,

after a time, commenced to lie and conceal," and as he noted, the impact of this revelation on the public was "devastating." By misleading the public about general intentions and specific actions in Vietnam, the U.S. government encouraged the perception that its policies were considered illegitimate and indefensible by the very men who were framing them.

As distrust between the executive and the legislative branches deepened with the war, foreign aid became the battleground for a sort of guerrilla warfare. Frustrated by the direction of the President's foreign policies, Congress resolved to restrict the government's ability to shift foreign economic policy at will. Sparing AID its institutional life, Congress initiated practices and passed legislation that guaranteed that the organization would be severely and permanently crippled.

AID's ability to perform was further compromised by the proliferation of what came to be called barnacles—mandatory and detailed assessments of each project's potential impact on the status of women, the distribution of income, the local human rights situation—in all, as many as 75 different areas of concern. While urging administrators to remember such issues might not have been ill-advised, requiring hundreds of pages of legalistic argumentation to justify even small projects added to the harassment of already harried local administrators. Not surprisingly, it caused project officials to shift their attentions away from the success of their endeavors in the field to the success of their entreaties on Capitol Hill.

'New Directions' in U.S. Foreign Aid*

The efforts to paralyze AID spoke to a broader problem of the Vietnam and post-Vietnam era: U.S. foreign policies had come to lack legitimacy in the eyes of a substantial portion of Congress and the public. A period of groping and confusion had begun: America's foreign economic policies had broken away from the bipartisan principles established in the early postwar years.

In 1971 and 1972 the President's foreign aid proposals were defeated in Congress; funding for them was arranged only through a catchall "continuing resolution" at the end of each

session. To restore congressional confidence in the foreign aid program and in the presidential purposes behind it, a new code for U.S. development programs was created and ratified in the Foreign Assistance Act (FAA)* of 1973 and the Mutual Development and Cooperation Act of the same year.

The Foreign Assistance Act of 1973 stated as directly as such legislation can that our postwar policies toward poorer countries had been a failure: "The conditions which shaped the United States foreign assistance program in the past have changed. . . . Our relations with the LDCs must be revised to reflect these realities." The problem, the act suggested, was that the strategy of export-oriented, self-sustaining growth that the United States had advocated since the 1940s did not actually benefit the common people of the countries it transformed. In the words of the Mutual Development and Cooperation Act, "economic growth does not necessarily lead to social advancement by the poor." The new Foreign Assistance Act implied that U.S. power abroad had been secured through alliances with local leaders who had little interest in the welfare of their own public. It said, "Governments of developing nations must actively attempt to distribute income more equitably and to attack directly the most pressing problems of their people." The new U.S. approach to foreign aid "should be . . . targeted on the basics"—meaning that aid should be judged by its direct and immediate impact on the living standards of the poorest strata of the recipient nations.

The reforms of 1973 had sweeping consequences for U.S. development efforts. In establishing the satisfaction of basic human needs* as the ultimate arbiter by which development would be judged, they necessarily shifted the purpose of AID from assisting self-sustaining growth to attending to the immediate needs of the poor by emergency-style distribution of donated food, medicine, clothing and materials for shelter. Development, which entails the transformation of society as a whole, is by contrast a historical and complex process.

With the operational restrictions that had already been imposed on AID project design, the basic-human-needs stipulation compounded the hazards of those development proposals with

deferred benefits, or those with consequences principally measured in efficiency or productivity. Thus U.S. bequests increasingly came to be seen as a means of facilitating a steady and comparatively unrestricted flow of funds to the governments of less-developed countries for whatever use they might choose. Though signed agreements usually allowed AID administrators to argue that their grants were "tied" to various purposes or conditions, local leaders generally understood the simple truth that, once obtained, government revenues are fungible—transferable from one objective to the next.

There was one more notable provision in the reforms of 1973 that rewrote the explicit purpose of development assistance programs in a seemingly slight, but nonetheless significant, way. Provision 102(a) of the Foreign Assistance Act of 1967 had read, "Development is primarily the responsibility of the people of the less-developed countries themselves." In the 1973 legislation, however, the equivalent passage read, "Development planning must be the responsibility of each sovereign nation." With this semantic change, the United States endorsed, and seemingly required, the very system of comprehensive planning that U.S. policy had decried as inimical to the interests of poor people scarcely 20 years earlier.

The reforms of 1973 may yet be hard to evaluate, but it is clear that they have had at least one effect. Before Vietnam, the United States could point to a number of self-reliant and prospering economies—Greece, Taiwan and South Korea among them—that had "graduated" from U.S. development aid. Since the reforms of 1973, however, there have been virtually no new "graduates."

'Multilateralization': The World Bank and the UN

The decoupling of U.S. development assistance from the policies that had previously been shown to improve the economic health of poor nations reflected a loss of faith. In many quarters it was no longer naturally assumed that U.S. interests and preferences, pursued in a practical fashion, would benefit the peoples of the world. In place of its old role, the United States was being prompted instead to assist with one thing it had, which poor governments manifestly lacked: money. As U.S.-administered development programs took on the trappings of relief work, and as certain Americans came to use the terms "development aid" and "reparations" interchangeably (in 1973 U.S. officials had secretly discussed postwar "development aid" proposals with North Vietnam), there was a simultaneous multilateralization* of U.S. bequests: a tendency to give aid through international institutions rather than to channel it directly from Washington to recipient governments. Through multilateralization, some proponents argued, donor pressure on recipient governments might be made to diminish, even as aid outlays were made to rise.

The McNamara Years

The multilateralization of aid was made easier by the impressive growth of the World Bank under Robert S. McNamara, the former U.S. secretary of defense who assumed the bank's presidency in 1968. As admirers testified at his retirement in 1981, he had overseen a tenfold increase in the bank's annual commitments. McNamara had accomplished this remarkable feat by reinterpreting both the bank's mission and its operational rules.

The bank's articles of agreement specify that bank funds must be used for "productive investment"; they neglect, however, to qualify the sort of spending that may be labeled in this way. McNamara took command of the definition. A growing body of economic research detailed the connection between education, productive knowledge and economic growth; more broadly, it suggested that augmenting "human capital"* was integral to economic development, just as deepening the base of physical capital was. McNamara used these observations to argue that health, nutrition, education, family planning and other social services were, in fact, investments, and thus were legitimate avenues for application of bank funds.

While expanding the prerogative for lending, the standards by which loans would be evaluated were simultaneously being relaxed. McNamara outlined the bank's new view of lending in 1970 by saying, "Any policy which can be justified for IDA as consistent with its development function can, I believe, be equally justified for the bank, and the bank should adopt it." Since IDA was in the business of dispensing soft loans, and soft loans, as David A. Baldwin, professor of political economy at Dartmouth College, pointed out over 20 years ago, "are of doubtful validity by any measured banking standard," a large pool of capital was being freed from the scrutiny that private loans must customarily withstand.

Like many of his congressional contemporaries, McNamara apparently felt that international development efforts had largely failed the poor. As he told the delegates to the third UN Conference on Trade and Development (Unctad) in Chile in

1972, "Development programs have been directed largely at gross economic goals, and have failed to ensure that all nations, and all groups within nations, have shared equitably in the economic advance." The bank's new basic-human-needs initiatives were informed by that opinion. McNamara had further concluded that an ongoing global transfer of public funds from the rich states to the poor ones would be necessary to meet the problem of world poverty. He said, "The rich countries have a responsibility to assist the less-developed nations. It is not a sentimental question of philanthropy. It is a straightforward issue of social justice."

Like many large institutions, the World Bank has never spoken with a single voice or acted under a single hand. Nevertheless, the change in direction during the McNamara years was unmistakable; the impulse to provide money to poor nations was less restrained, and the right to monitor its disbursement seemed increasingly open to question. A longtime observer of development programs, Professor Raymond F. Mikesell of the University of Oregon, reflected on the significance of this change. He said, "The loans of the World Bank, IDA and regional development banks . . . need not be justified specifically on the basis of the contribution of the program to economic growth. . . . Per capita income rather than the achievement of a condition of sustained growth constitutes the principal basis for eligibility [for loans]." The World Bank had come a long way from the Bretton Woods conference, when Secretary Morgenthau had introduced it to the world by saying, "The chief purpose of the IBRD is to guarantee private loans through normal investment channels."

The multilateral institution that most effectively divorced development funding from the pressures of donors was the UN. During the 1960s a voting bloc made up largely of newly independent countries, which defined itself by opposition to U.S. policies in Vietnam, began to form. As it grew, it became clear that this bloc was not simply opposed to America's war in Vietnam but also was averse to American policies and goals in the world and to the very idea that the United States should be a nation with significant international power. The group of development organizations which had been erected beneath the UN

flag was becoming increasingly hostile to the meanings of the UN Charter, the previous purposes of the institution and the principles of the Western peoples who provided most of the UN's funds.

The UN's new development agenda followed largely from the same line of thought that had led to Chilean President Salvador Allende's accusation—before the same Unctad audience to whom McNamara had confessed the failure of Western-sponsored development efforts—that industrial nations had created a world where "the toil and resources of the poorer nations pay for the prosperity of the affluent peoples." Following this logic, the new development initiatives emanating from the UN were aimed at disassembling the postwar liberal international economic order and, instead, augmenting the capacity of states to plan their local economies and of leaders to direct their peoples' societies. Renewed global transfers of tax revenues from the Western nations were to assist in this process.

It should be remembered that the United States did little to discourage advocates of the New International Economic Order (NIEO)* or representatives of the nonaligned Group of 77 (as the bloc of developing nations is known) from continuing and even escalating their attacks on the West. Not until late 1977, under President Jimmy Carter, did the United States cut its funding for any UN agency. For seven years—from 1970 to 1977—the United States made virtually no concerted effort to come to the defense of either its national interest or its principles in any of the UN's forums. (The attempts of an isolated individual appointee to the UN, Ambassador [now senator] Moynihan, to force the U.S. government to respond to these anti-American offensives stood in contrast to the accepted policy of the day, but did not change it.)

Origins of the 'Debt Crisis'

The crisis of confidence in U.S. aid policy in the early 1970s coincided with a period of doubt and confusion in U.S. policies toward the international economy as a whole.

Some U.S. actions seemed to strike at the base of the economic order previous American Presidents had worked so hard to secure. In 1971, President Richard Nixon (1969-74) imposed price and wage controls and, to shield them from the international consequences they engendered, suspended the Treasury's commitment to convert dollars into gold. Thereafter world currencies were allowed to float. The Smithsonian Agreement of 1971 ratified the U.S. unilateral action, after much negotiation and consultation. While the domestic result of these manipulations was to lessen the pressures on the U.S. budget and Treasury, the international effect was to strip the IMF of its two assigned functions, leaving the institution largely without a mandate and the world economy without any sure means of stabilizing currencies.

The unilateral American decision to leave the gold standard, and the subsequent advent of a system of floating exchange rates,* might have been expected to introduce some turbulence into the international economy in the early 1970s under the best of circumstances. But the turbulence was compounded by a number

of unexpected governmental interventions, including some in the world food trade, at much the same time. Between 1971 and 1973, for example, the Nixon Administration imposed a surprise 10 percent tariff surcharge on imports to the United States; concluded a secret grain-sale agreement with the Soviet Union; and ordered a sudden embargo on U.S. soybean sales abroad, unilaterally voiding previously finalized contracts. Such actions threw world food trade into confusion and contributed significantly to what was then called the world food crisis—in reality, a crisis in the credibility of American-dominated international grain markets. The world food crisis had subsided by the mid-1970s; longer lasting, and more consequential, was the so-called energy crisis.

With a variety of American actions seeming to introduce or exacerbate uncertainty in the international economy, the international value of the dollar began to decline. This situation was extremely worrisome in a variety of countries, especially those exporting commodities priced in dollars.

Oil was one of these commodities. In 1973 the Organization of Petroleum Exporting Countries (OPEC), an international cartel of producer states then accounting for most of the world's market economy (as opposed to Soviet and other nonmarket economy) oil sales, engineered a fourfold increase in the price of oil. The immediate justification for the move was retaliation against the United States for its support of Israel during the 1973 so-called Yom Kippur war. But as OPEC spokesmen made clear in various statements before and after that brief war, the price rise was also prompted by the declining international purchasing power of the cartel governments' oil revenues. Moreover, the OPEC price increases applied not only to the United States but to all other Western countries and to less-developed oil-importing countries as well.

The price shocks and the sudden buildup of OPEC petrodollar surpluses jolted the international financial system and set far-reaching adjustments in motion. With the price of energy surging, the dollar became a transmission belt for world inflation, further losing some of the value and confidence it had previously

commanded. But another consequence of the energy crisis was less immediately apparent. New OPEC surpluses encouraged a general relaxation of economic discipline in less-developed countries.

For a time, thanks to the sudden rapid increase in prices in world markets, interest rates on borrowing were lower than the inflation rate. With real (inflation-adjusted) interest rates driven below zero, a poor country borrowing today could, in effect, actually expect to owe less tomorrow. Furthermore, the international excess of dollars, augmented constantly by OPEC cash surpluses, significantly altered the character of capital transfer to the less-developed countries. Private Western banks with swelling deposits of petrodollars found themselves under increasing pressure to recycle those funds to the less-developed regions—from which they had been partially drawn.

Private Enterprise Funds Public Spending

On the one hand, this made direct private investment from abroad—never popular in the eyes of many regimes in the poorer regions—an ever-less-compelling option for governments intent on raising funds internationally. On the other, the pressing need to put their mounting petrodollar accounts to work encouraged Western banks to redefine "creditworthiness." To an increasing degree, the criterion for lending came to be the capacity to absorb funds, something governments and state-owned enterprises in the less-developed countries were generally quite willing to do. Thus, private enterprises in the West came into the business of funding public spending in the LDCs. Current-account deficits and ambitious but indefinite state spending projects suddenly seemed attractive to increasing numbers of creditors. This change in attitude was noted in the capital cities of debtor countries. Many governments were prompted—not unreasonably—to conclude that commercial lending was becoming very much like soft lending—and that it could be treated accordingly.

The IMF's role in this crisis of excess liquidity was complex—all the more so because of the limitations, old and new, inherent in its operation. Stripped of its function as a mediator between

central banks attempting to maintain fixed par values for their currencies, the IMF was redefining its role, as the German economist Roland Vaubel has noted, into one of "facilitating balance-of-payments adjustments." In essence, this meant extending special drawing rights (SDRs), artificial international reserve units created by the IMF in 1969, to the central banks of countries with serious balance-of-payments troubles, while simultaneously insisting that the borrowing nations prevent the recurrence of such difficulties through financial and economic reforms.

It is widely said that the IMF's analytical staff is superb, that its ability to obtain accurate financial information on delinquent governments exceeds that of a commercial creditor, and that its seal of approval—applied through a lending agreement—is important enough in the financial world to make many borrowers take its policy recommendations seriously. Even so, the IMF's single material means of aiding its clients is to increase available international currency reserves—not exactly the ideal medicine at a time when the world was suffering from a surfeit of international liquidity.

The IMF's ability to function in the interests of international financial prudence was further restricted by the installation of new, soft-lending windows to help with LDC problems. In the 1970s the IMF opened an Oil Facility subsidy account, a Supplementary Financing Facility subsidy account and a Trust Fund, all for exclusive use by low-income countries. The purpose of the new windows was concessionality—precisely the opposite of what is ordinarily regarded as the essence of financial management. Not surprisingly, these concessional facilities often had the opposite of their desired impact. As the Group of 30, an international committee of financial and economic policymakers, would later remark about the Oil Facility, it often served to "slow down adjustment in the sense that it made money too easily available."

Just as important, the new IMF facilities seemed to reflect a change in moral precepts about the economic adjustment process in the less-developed countries. Increasingly, adjustments made necessary by economic mismanagement or profligate government

policies were carried out with the understanding that they should not impose economic hardships on the people of the countries in question. For countries in which government policies represented the will of the people, this would seem like an unusual condition; in most societies, after all, it is expected that people should live with, and learn from, the consequences of their choices. But this was the irony, for it was no longer widely clear that policies in less-developed countries did in fact express the will of the people. In the 1960s and 1970s Third World governments had been slipping away from constitutionalism and democracy; the men at the top were ever less often legally accountable to the people at the bottom. The new, tacit rules for "adjustment" and "conditionality"* were to recognize this fact. Rulers of poor regions might now threaten to hold the living standards of their poorest groups hostage before the international community and expect the IMF—once the most sensitive of all international organizations to the moral hazard of providing incentives for improper conduct—to help raise the ransom.

The Brandt Report

The new attitudes which were impressed upon the IMF in the late 1970s had already been deeply imprinted on the World Bank. In 1977 McNamara created the Independent Commission on International Development Issues, a panel of inquiry headed by the former chancellor of West Germany, Willy Brandt. The Brandt commission presented sweeping and detailed recommendations in 1980. Though its proposals were widely discussed, they were not adopted into practice. The Brandt report was thus a sort of high-water mark for the proponents of the New International Economic Order.

The Brandt commission called for a "new monetary order" in which the IMF would expand its reserves and make itself available for a regular financing of chronic deficits in less-developed countries, while simultaneously "abstaining from the imposition of political conditions on the operation of multilateral financial institutions."

The Brandt report also envisioned a general cartelization of

commodity exports following the OPEC example. In the event that competitive economic forces threatened to depress prices or incomes, either in the short or the long run, there would be a "compensatory-financing mechanism" which would remunerate governments in accordance with the volume of goods they should have sold and the prices they should have received. To pay for stabilization, and possibly other projects, the Brandt commission recommended that a general tariff be imposed on trade between Western nations.

The commission expressed doubt about the feasibility of servicing the needs of less-developed countries through private loans or investments that were vulnerable to "market failure." Instead, the Brandt commission recommended that "massive" automatic transfers of aid from Western treasuries to less-developed countries be transmitted by mechanisms that would not require repeated approvals from Western parliaments or legislatures. The commission suggested that concessional bequests be increased by $30 billion in 1985 alone. In all, the Brandt commission proposed an additional $50 billion to $60 billion in direct aid between 1980 and 1985, and additional sums that would rise steadily into the twenty-first century. Few restrictions on the spending of these transfers were urged upon recipient governments.

Thus the Brandt commission seemed to reject most of the principles that had governed international economic relations in non-Communist regions of the postwar world. Any comprehensive attempt to implement the Brandt recommendations would likely result in a severe and possibly permanent dislocation of commercial capital flows, a steady debasement of international currencies, and ultimately a destabilization of international commerce. Despite all this, no senior U.S. official rose to critique the Brandt commission's recommendations. This awkward silence in the face of a challenge was not uncharacteristic of the Carter Administration's posture toward LDCs.

Elected in the wake of the Watergate scandal on the campaign theme of reinstating moral purpose into U.S. politics, President Carter often expressed the view that the less-developed countries

were a troubled area in which the United States had a moral duty to struggle for hearts and minds. Many, if not most, of his countrymen agreed with him on this. Unfortunately, the President seemed to find it extremely difficult in practice to decide whether outcomes determined by the use of U.S. power overseas were in fact moral.

Foreign Aid Policy Under Carter

Sensitivity to criticism and ambivalence about American purpose were highlighted in the Carter Administration's foreign aid policies. The Administration enthusiastically embraced the New Directions legislation, whose restrictions seemed to provide proof that the United States was interested in directly aiding the world's poor. It created the International Development Cooperation Agency (IDCA)*—an umbrella organization above AID—to remove development assistance programs from the direct chain of command within the State Department and thus shield the United States from charges that it was using foreign aid to further national interests. It agreed to continuing cutbacks in military and security assistance, in part as a response to criticism that these funds might be used for questionable or even inhumane purposes by America's chosen allies.

The Carter Administration also commissioned two major studies on world poverty. The first of these was *Overcoming World Hunger: The Challenge Ahead*, prepared by the Presidential Commission on World Hunger. Among the recommendations of the commission were total debt forgiveness for the poorest developing countries, an easing of IMF lending conditions, an immediate doubling of U.S. development outlays, an increase in Food for Peace* authorizations while relaxing the conditions for disbursement, the promotion of a UN code to regulate international businesses operating in less-developed countries, and the establishment of a public organization in the United States to lobby for these goals.

The second study, *The Global 2000 Report to the President: Entering the Twenty-First Century*, prepared by the Council on Environmental Quality and the Department of State, argued

along similar, although not identical, lines. *The Global 2000 Report* warned of an impending and generalized series of environmental problems born of overly rapid population growth in the less-developed countries and excessive economic growth in affluent nations. These twin burdens, it was argued, would place the global food system under severe stress; indeed, they could even pose a threat to the world's overall ecological balance. One implication of this computer model study was that the sort of sustained economic growth that would be necessary to draw the world's poor countries out of mass poverty might seriously destabilize a fragile global ecosystem, possibly causing ruin for all.

These two Administration-sponsored studies may help explain the lack of official reaction to the Brandt report. In an atmosphere congenial to *The Global 2000 Report* and the study of the Presidential Commission on World Hunger, the Brandt commission's perspectives and positions may not have seemed peculiar. Perhaps without fully realizing it, the Carter Administration had ended up accepting as counsel in its dealings with the LDCs many of the basic tenets of the UN's proposed NIEO.

The Reagan Proposals

Ronald Reagan's decisive victory over President Carter in 1980 seemed to presage more than just a shift in domestic attitudes toward America's use of power. The Reagan Administration came to office with an articulated and internally consistent vision of America's political and economic role in the world. This vision had implications not only for the international political struggle between the United States and the Soviet Union, but also for U.S. policies toward the world economy and development.

More than any President in a generation, Reagan embraced the precepts which had guided the foreign economic policies of Presidents Roosevelt and Truman. He emphasized this return to earlier principles in a major speech on international economic development at the World Affairs Council in Philadelphia in October 1981.

"Economic health" was the theme underlying the President's

prescriptions for promoting international economic advancement. There was, he said, a "need to revitalize the U.S. and world economy as a basis for the social and economic progress of our own and other nations. . . ." He said there was a "need for a clearer focus on the real meaning of development and our own development record. . . ." He stated that "the way we can provide the most opportunity for even the poorest of nations is to follow through with our own economic recovery program to insure strong, sustained noninflationary growth," in part because of "the enormous contribution we make through the open, growing markets of our own country."

President Reagan identified five principles by which development might be encouraged:

> First, stimulating international trade by opening up markets, both within individual countries and between countries. . .
>
> Second, tailoring particular development strategies to the specific needs and potential of individual countries . . .
>
> Third, guiding assistance toward the development of self-sustaining productive capacities . . .
>
> Fourth, improving in many of the countries the climate for private investment . . .
>
> Fifth, creating a political atmosphere in which practical solutions can move forward—rather than founder on a reef of misguided policies that restrain and interfere with the international marketplace or foster inflation.

The President's words suggested that a dramatic change—or more properly, a historic restoration—of U.S. policies toward international poverty was under way.

The Reagan Administration's actions, however, suggested something quite different. Instead of bringing America's foreign aid policies back in alignment with the goals and ideals that had originally animated them under Roosevelt and Truman, U.S. assistance programs were allowed to continue down the path that had been charted in the 1970s. So smooth, in fact, was this continuation that it was often difficult to tell which Administration was in power. In the Reagan years, however, the administra-

tors of these programs appeared increasingly intent upon concealing the discrepancy from the U.S. public.

The 'Debt Crisis' of the 1980s

The development prospects for the poorer regions in the early 1980s were affected by a shift in policy that took place at the U.S. Federal Reserve Board in late 1979. During most of the 1970s, the inflation-adjusted discount rate for the dollar had been negative. This had encouraged inflationary expectations and speculation on a global scale. With President Carter's appointment of Paul A. Volcker as Federal Reserve Board chairman in 1979, U.S. central bank policy underwent an abrupt shift. Volcker chose to break the national and international inflationary psychology, and allowed interest rates to rise accordingly. By the beginning of 1981 the dollar had regained the relative valuation against other currencies that it had had before the first oil shock in 1973. But if the restoration of the dollar as a more sound medium of international exchange strengthened the fundamentals of the liberal international order, it also punished those who had speculated on an inexorable decline in the dollar.

With a firm and rising dollar, OPEC price rises would no longer be offset by increasing the price of other currencies; this realization led to an acceleration in the effectiveness of energy conservation policies on the part of industrial societies, with a corresponding slowdown in the demand for oil. At the same time, a firm dollar encouraged oil producers outside the cartel to expand production and undercut OPEC. As OPEC's current-account surpluses began to diminish, so did pressure on Western banks to loan money to governments in Asia, Africa and Latin America. It is therefore not entirely an accident that the "debt crisis" among LDCs began almost immediately after the dollar had halted its decline and the real rate of interest on international commercial borrowing had once again become positive.

The debt-servicing problem of the many developing countries that have applied for debt rescheduling* from their creditors since the early 1980s has typically been analyzed in terms of their ratio of commercial debt to gross national product (GNP), or of interest

and amortization payments in relation to export earnings. Such measures do not gauge the basic problem. As Vaubel has noted, "The ultimate criterion of whether debt servicing has become more difficult or not is whether the borrower's rate of return exceeds the interest he has to pay. . . . [This] depends on his use of the funds." Banks had tried to avoid this question in the 1970s, but by 1982 they had no choice but to face it. In most of the rescheduling countries, it had become inescapably clear that much of the commercial investment capital that had been lent to governments and state-owned enterprises in the 1970s and 1980s had been wasted, or spent on subsidies and other measures to increase living standards, or transferred to unknown sites. In Mexico, where the onset of financial crisis in 1982 had been preceded by an oil boom, nearly $40 billion in foreign debt had been contracted by four state-owned enterprises; shortly before "*la crisa*," these four and their sister state-owned enterprises were managing to run an annual deficit estimated at approximately 10 percent of Mexico's GNP. The problem in Mexico, although large, was by no means the most extreme of the many cases of mismanagement for which bankers suddenly found themselves financially responsible. In Zaïre, for example, large portions of the funds loaned to the government had apparently vanished.

Not all the consequences of this debt crisis were injurious to creditor institutions or debtor governments. In banking, more-prudent criteria for lending customers' money began to reassert themselves. In the less-developed countries, there was a sudden and notable muting of the rhetoric of the New International Economic Order. By early 1984, the UN's Committee for Development Planning would write, "Only a few years ago, discussions of international development strategy . . . suggested it might be desirable to slow down the growth of the industrialized countries in order to retard the depletion of the planet's nonrenewable resources. . . . However, intervening experience . . . has demonstrated . . . how unlikely a Southern expansion would be without a recovery in the North. Northern stabilization and growth efforts, therefore, have become integral components of any persuasive global development strategy."

The Bretton Woods institutions played a surprisingly small role in contributing to poor regions' interest in the secure workings of a liberal international economic order. If the World Bank and the IMF did comparatively little to capitalize upon the newfound willingness of many poor governments to listen to advice about the ways in which they might better manage their nations' economies, the Reagan Administration's bilateral aid* programs did even less. U.S. aid agencies made no meaningful attempt to implement the principles the President had outlined in his Philadelphia speech. In fact, to the extent that development funding followed any clear priorities in the first Reagan term, these were often the opposite of what the President had led the American people to expect.

Aid Policy During the Reagan Years

As a practical matter, commitment to improving the effectiveness of America's development assistance would have required changes in both laws and organizational structures. To reconcile development assistance with the broader purposes of U.S. foreign policy, it might have been necessary to disassemble IDCA and bring AID fully back within the State Department command structure; to make it possible for AID to follow a new mandate without excess expense, it would have been necessary to undo some of the constraints on the agency that had been legislated during the 1970s. It may not be a surprise that the Reagan Administration failed to achieve these changes. What is notable, however, is that no senior officials in the State Department, or AID, ever publicly requested them.

For all AID's operational problems, the Reagan Administration's troubles with development policy were overwhelmingly in the sphere of policy formulation. The difference between the President's instructions and his appointees' execution of them could hardly have been more striking.

Between February 1981 and August 1987, the Reagan Administration's development programs were supervised by its acting director of IDCA and administrator of AID, M. Peter McPherson. He made clear his perspective on development issues and the

problems of world poverty in his first presentation before the House Foreign Affairs Committee in 1981. "We have learned," he stated, "that continued progress in Third World development is of growing importance to our own domestic and international well-being. In the past year, public awareness of our interdependence has been highlighted by the Presidential Commission on World Hunger, the Brandt commission, and the 'Global 2000' study." Embracing the findings of these reports, he instructed the congressional committee on their significance: "Failure to make acceptable progress in ameliorating conditions of poverty can only lead to domestic instability and increasing frustration on the part of Third World governments over the workings of the international system and the distribution of economic and institutional power in that system as it is now constituted." To observers of the "North-South dialogue" (the term for foreign aid requests preferred by proponents of the New International Economic Order), the device of wrapping a request for aid in a veil of threat was by now all too familiar, but in the deliberations between appointed representatives of the executive branch and elected representatives in Congress this procedure was something quite new. It had not been seen under President Carter.

To move U.S. development programs back to the stimulation of "self-sustaining productive capacities," as Reagan had seemed to pledge, it would have been necessary to challenge the New Directions legislation of the 1970s. AID made no effort to do so. It is often difficult to trace the thread of logic behind administrative action; two years into his appointment, however, McPherson gave a revealing insight into AID's official thinking when he testified before a House committee. Reflecting on the early 1970s, he remarked that "the political, social and economic structure which had evolved in many LDCs had produced little improvement in economic well-being for the poor of these countries. To help correct this situation, a new concern with the effect of our assistance on the poor majority emerged a decade ago, in the form of the current New Directions legislation." This was an implicit endorsement not only of the legislation but of the analysis which had prompted the new laws in the first place. That analysis, of course, held that the postwar order the United

States had created could not be relied upon to advance the interests of the world's poor.

Whatever Reagan himself may have intimated, AID's administrators did not seem to envision the agency as a vehicle principally for the stimulation of self-sustaining growth. In an economic aid request for fiscal year (FY) 1984, the AID administrator told Congress that "trade and debt pressure is particularly serious for stability and longer-run economic progress in the low-income countries. . . . Our foreign assistance program can play an important role in their economic recovery. . ." It was an interesting analysis. The problems to which he referred were short-term financial ones, exacerbated by a presumably cyclical drop in international economic activity. Development programs, as generally construed, however, involved long-term technical transfers. A development program could play an important role in a short-term economic recovery only if it infused money directly into a pool of current spending.

AID's presentations left little doubt about the agency's belief in the propriety of direct budgetary transfers. A Reagan Administration AID policy paper on health assistance, for example, notes that "by 1982, one half of the agency's development assistance budget for health supported the delivery of basic health services in LDCs." Such development assistance is, necessarily, a direct bequest from the U.S. Treasury to operating revenues of recipient states. Whatever else may be said of such infusions of funds, they are in no sense self-sustaining.

Confusion over the distinction between recurrent expense and productive investment likewise marked AID's agricultural program. AID's FY 1983 presentation to Congress proposed to increase agricultural productivity in the LDCs.

In this proposal, one item was conspicuously absent: prices paid producers. Yet it is prices that typically prove decisive in the success or failure of agricultural development, for they determine the returns which may be derived from increasing production or adopting innovations.

At times AID seemed to conduct its own foreign policy. In December 1983, the State Department announced that the

United States intended to suspend its funding for the UN Educational, Scientific and Cultural Organization (Unesco); the action was publicly explained as an attempt to register objection to many of Unesco's undemocratic practices and proposals. Of particular importance was Unesco's call for a "new world information order" in which Third World governments would control news agencies and license reporters. Two months later AID published a paper on "Development Communications." The document suggested that AID had determined it was appropriate to fund many of the sorts of projects that the State Department had specifically objected to at Unesco.

The development organization's greatest disagreement with established U.S. policy may have centered on private enterprise. The role of private enterprise and its legitimate involvement with development seem to have troubled AID administrators deeply during the Reagan years. One attempt to resolve the problem was their creation of a Bureau for Private Enterprise, nominally charged with, among other tasks, encouraging "privatization"* in recipient countries. In a sense, this only compounded the problem; for the first time in its history, AID had formally and explicitly separated the job of encouraging private commerce from its overall responsibilities in promoting development. Moreover, the private-enterprise initiative did not seem to have enthusiastic AID backing. In its heyday it was allocated $27 million; since then, its funding has declined.

The policies and actions of the U.S. government's development agency thus appeared to stand in direct opposition to the Reagan Administration's professed strategy of strengthening the liberal international economic order. Furthermore, AID's development thinking proved to be unobjectionable to those within the Administration who were in a position to object to it. Various arms of the government, including the departments of State and Treasury, together with two specially assembled Reagan Administration commissions, reviewed U.S. development policies regularly and thoroughly. However, they did not exercise their authority to challenge AID policies at obvious odds with the President's enunciated objectives.

Foreign Aid in the 1980s

In the four decades since President Truman proposed his Point Four program, economic assistance to LDCs has become a regular facet of the foreign policy of virtually every Western nation and a significant feature of the international economic landscape. By the 1980s, Western governments and multilateral agencies (such as the World Bank and the UN), primarily funded by Western governments, were committing about $40 billion a year in nonmilitary assistance to governments in Africa, Asia and Latin America. Most of these commitments are classified either as humanitarian aid (for saving lives) or as development assistance (for hastening the pace of material progress).

How well have these transfers served these objectives? One gets a better sense by examining some of the actual problems that local populations in low-income countries, and aid programs intended to assist them, currently face.

Much of mankind continues to live under the shadow of life-imperiling disasters and upheavals. Floods, earthquakes and storms still endanger millions of people every year, and the

human cost of famine is even greater. Since the end of World World II, it is believed that tens of millions of people have perished from famine in Asia alone.

To deal effectively with today's natural disasters, it must be realized that "acts of God" cannot be prevented, but their quotient of human risk and suffering can be vastly and systematically reduced. For example, the United States and Japan are more subject than most regions of the earth to sudden natural disturbances. The Japanese archipelago is an earthquake zone, buffeted by tropical storms and exposed to tidal waves. The U.S. landmass is threatened by earthquakes, tropical storms and tornadoes, and has more active volcanoes than any other nation. Nevertheless, very few people in Japan or the United States die from these natural perils. The African continent, by contrast, would appear to be comparatively well protected against sudden disasters. It is exposed only slightly to tropical storms and tidal waves, has only a small earthquake belt and few active volcanoes, and experiences tornadoes only in South Africa. Despite these natural advantages, sub-Saharan Africa lost hundreds of thousands of lives in disasters in the 1980s.

Western peoples have not always enjoyed their present protection against adverse acts of nature. In the first 10 years of the twentieth century, over 6,000 Americans died in hurricanes. Over the past 10 years, less than 85 died in hurricanes—an almost 99 percent drop—despite a doubling of the national population and steady urbanization of coasts where the storms most often strike. Affluence, as manifest in safer dwellings, accounts for part of the change; even more, however, is explained by those handmaidens of affluence, technical advance and government competence. Purposeful private and governmental action can now substantially cut the destruction from natural disasters even in the poorest areas.

Not all governments, however, work at minimizing the havoc from sudden disasters, as the two most costly ones in the 1970s attest. In 1970, East Pakistan, as Bangladesh was then known, was devastated by a cyclone and tidal waves. The Pakistani government—seated in and dominated by West Pakistan—

responded to the extreme distress in its Bengal territory with what might kindly be described as hesitation, and as many as 100,000 Bengalis are thought to have perished. Similarly, in 1976, the city of Tangshan, China, was flattened by an earthquake. One of the Chinese government's first responses to the disaster was to announce that it would refuse all international offers of aid for the earthquake victims. Details about the actual rescue operations which China itself undertook are still obscure. Since the rise of Deng Xiaoping, however, China's media have severely criticized his predecessors' handling of the Tangshan affair; they now state that almost a quarter of a million people died in the disaster.

Positive Government Strategies

If government action can be consequential in limiting the suffering caused by sudden upheavals, it can be even more important in controlling or preventing famine. It is possible to cushion the impact of crop failure in even the poorest regions of the earth. If a government lacks the administrative capacity to manage a far-reaching relief effort, it may request free assistance from the many impartial international organizations that have proved they can both supervise and staff effective relief operations on short notice and under difficult conditions. In the mid-1960s, U.S.-Indian cooperation saved millions of Indians from starvation after a series of harvest failures and even seems to have prevented death rates from rising in the afflicted provinces. Since then, the capabilities of both the world food system and international relief organizations to attend to mass disaster have grown steadily. They now present even the least sophisticated government with an opportunity to control famine within its borders—if it is interested in seeing its people fed.

The terrible truth, however, is that some governments in the world today have demonstrated that they are not interested in seeing their people fed. Some have deliberately ignored signs of incipient crisis, others have interfered with international relief for their stricken groups, and still others have actually created famine conditions through premeditated action.

A vivid example of government involvement in mass famine is

the devastation of Ethiopia that began in the mid-1980s and continues today. After seizing power in 1974, Ethiopia's Marxist-Leninist Dergue (a military junta) launched a campaign against capitalism in the countryside, restricting and ultimately prohibiting the sale and marketing of farm produce and agricultural implements. At the same time, a newly formed secret police executed or imprisoned thousands of students and skilled workers and caused many thousands more to flee. The government used foreign aid meant for economic development to underwrite military buildup and war. Periodic drought is natural to Ethiopia's climate, and these new policies virtually guaranteed that drought would result in famine. Once famine struck, however, the government did not seem to be interested in the problems of its starving people. Even when millions of its citizens were directly affected by food shortages, the Dergue concentrated its attention and funds on the celebration of its 10th year in power, reportedly spending the equivalent of over $100 million on the festivities. Relief operations did not seem to have begun in earnest until an outcry in the West over the plight of the famine victims forced the government to offer some perfunctory relief. Instead of helping international relief groups reach famine victims in all stricken areas, however, the government used the opportunity to reduce the number of its most rebellious citizens. In Tigre and Wollo, regions where the Dergue is especially unpopular, the Ethiopian government began a program of mass deportations; 2.4 million of these areas' most able-bodied (and thus least endangered) people were scheduled for eventual removal. One French charitable group reported that 50,000 to 100,000 deportees may have died as a result of this program in its first year of operation.

Ethiopia is not the only African country to have courted starvation through its policies. In early 1989, for example, reports from neighboring Sudan indicated that both the Sudanese government and rebel forces had been using food as a weapon in their struggle; tens of thousands of people were said to have died as a result. Both sides were accused of ignoring the two basic precepts of humanitarian relief: impartiality and nondiscrimination in the distribution of benefits to the needy.

Development

According to many leaders in the Third World and to some development organizations in the West, the principal obstacle to accelerating the pace of material progress in low-income nations today is the inadequacy of concessionary aid from Western countries. It is striking, and inadvertently revealing, that such criticisms of Western giving so often neglect to discuss either the quality of the aid received or the ends that it achieves. By disassociating development aid from measurable results, such thinking reduces Western assistance from a practical policy to an aesthetic gesture. To advocate massive new aid programs irrespective of their impact on the economic health of recipient countries, though expensive for the West, could prove far more costly to the world's poor.

Few people in the West appreciate the magnitude of current resource flows from Western societies to the Third World. Although such flows are extremely difficult to measure, the Organization for Economic Cooperation and Development (OECD), a 24-nation group of leading economic powers, attempts to do so. On the basis of its figures, it is possible to make some very rough calculations about the postwar transfer of Western resources to low-income countries.

According to OECD computations, the net disbursal of financial resources (both concessional and commercial) from Western nations to less-developed countries between 1956 and 1987, adjusted for inflation, exceeded $1.75 trillion. Even this figure, however, understates the total postwar transfer of resources. It does not, for example, seem to measure either concessional grants or commercial loans for the military, even though these figure prominently in the finances of many developing countries. And it does not include the net flow of resources in either the first half of the 1950s or the years since 1987. Taking everything into account, it seems quite possible that the total net transfer of capital from the West to the Third World since the beginning of the liberal international economic order may have already exceeded $2 trillion at today's prices.

One way to appreciate what $2 trillion represents is to try to

envisage the entire U.S. farm system and all the industries listed on the New York Stock Exchange. At their market values in the early 1980s, $2 trillion would have paid for both.

What has been the impact of this extraordinary transfer of Western wealth on the societies that have received it? Broad and unmistakable patterns arise, some of which are indicated in the very composition of these financial transfers. Less than one quarter of the inflation-adjusted total for the years 1956–87, for example, appears to have accrued from direct (and voluntary) overseas private investment. That fraction, moreover, has diminished over time. In the late 1950s, direct private investment accounted for almost two fifths of the net financial flow to less-developed countries; in the last five years for which OECD has published figures, 1983–87, the fraction has dropped to below one sixth.

One of the original arguments for foreign aid was that development assistance would increase the capacities of poor countries to make productive use of international investment resources. The record seems to suggest that the opposite has happened. Despite hundreds of billions of dollars in Western development assistance and generations of economic growth, the less-developed countries, taken as a group, obtain a far smaller fraction of their foreign resources from direct private investment today than they did 30 years ago. This must mean that Third World countries, taken as a group, have grown more hostile to direct private investment, or are less capable of attracting foreign investment, or both.

The eclipse of direct private investment from the West was made possible by the increasing use of an alternative medium of capital transfer, commercial lending. Unlike direct private investment, bank loans to less-developed countries accrued principally to governments and state-owned public corporations. Such lending effectively severed the connection between the provision of capital and the right to manage it. The responsibility for determining the use of these funds, and for repaying them, fell on the state. It was not long before dozens of countries in the Third World announced that they would be unable to repay their

commercial obligations to their Western creditors on schedule. Subsequent requests for debt relief* have proposed converting a substantial portion of these Third World obligations into a retroactive and unintended gift from the West.

Living Standards Lifted

Within the diverse and disparate amalgam of countries that goes by the name Third World, there has been a dramatic and general improvement in material living standards during the era of Western transfers. This fact should be neither ignored nor belittled. Life expectancy for the people of undeveloped regions, according to the UN, rose by almost 40 percent between the early 1950s and the early 1980s; infant mortality is estimated to have fallen by half over this same period. Although economic statistics for the less-developed regions should be accorded no great confidence, the World Bank says that per capita gross domestic product (GDP) more than doubled between 1960 and 1985 for the billion-plus people living in what it terms middle-income economies. It says that per capita GDP rose by almost half in India during this same period. Even the most troubled category of states, the "other low-income economies" of Africa and Asia, is said to have experienced a 20 percent increase in per capita GDP during those years alone.

But while peoples of the less-developed countries have seen far-reaching material advances in their societies, their economies have also typically undergone strange and troublesome transformations. In a great many countries of the Third World it has proved possible to finance an ambitious and comprehensive recasting of the national economy in ways similar to the mobilizations undertaken by societies preparing for protracted and total war. Such exercises in economic conversion have left many of these countries' economic structures noticeably distorted and unnecessarily incapable of meeting either the social needs or the commercial demands of their people. Others are left in a curious state of economic imbalance: richer than ever before, and yet at the same time less capable than ever of pursuing self-sustaining growth.

In the Western nations, agricultural development was a key factor in overall economic development. Many governments in Africa, Asia and Latin America have attempted to bypass agricultural development in their rush to industrialize. They have pursued policies systematically prejudicial to the interests of their rural populations: overtaxing farmers, underpricing their produce and diverting resources to continue the forced-pace growth of cities and factories. Neglect and exploitation have left many poor countries with unnaturally small agricultural sectors in relation to their people's needs or their development potential.

A Double Paradox

The same policies that produce industrialization without prosperity have created an equally paradoxical phenomenon in many LDCs: investment without growth. By the estimates of the World Bank, in the early 1960s the ratio of gross domestic investment to GNP in Jamaica, Mauritania, Liberia, and what is now the People's Republic of the Congo was equal to or higher than that of Japan in the early 1950s, at the beginning of its remarkable economic boom. Yet over the course of the 1960s and 1970s, while Japan was quadrupling its per capita output, Mauritania and Liberia are said to have raised theirs by less than 40 percent; the People's Republic of the Congo, by the World Bank tally, registered a rise of less than 20 percent; and Jamaica apparently managed to increase its per capita output by only 13 percent. It is worth considering the scale of economic mismanagement which would be necessary to achieve such results.

As agricultural sectors in the Third World have been artificially restricted and diminished by national policies, so what is termed investment has been artificially swollen. According to the World Bank's most recent figures, which are for 1989, the West has a lower overall investment rate (21.5 percent of GDP) than the developing countries (24.6 percent of GDP). For the "middle-income economies," overall rates of gross domestic investment are higher today than they ever were in the United States. But these patterns of investment cannot be taken as a sign of economic promise. In many countries, these high rates have already

proved to be unsustainable—the debt crisis affecting so many poor nations is only a formal recognition in extremis of this fact. To a distressing degree, the capital buildup to which so many Third World governments committed themselves over the past three decades was guided not by economic logic but by the political imperative of maximizing the resources and power of the state. Misuse of resources is always costly, but it is especially hard on the populace of poor societies. It is poor people, after all, who can least easily forgo consumption today, and investment is, by definition, forgone consumption.

The postwar transfer of resources from Western nations to the LDCs, as it has been conducted, appears neither to have improved the climate for productive international investment nor to have contributed generally to self-sustaining economic growth.

Developing Human Capital

The justification for development assistance that has been voiced increasingly since the early 1970s, the need to build human capital, is of crucial importance in economic growth. Health, education, knowledge, skills and other human factors determine the maximum pace at which development can proceed. But returns from human capital, as from any other potentially productive resource, depend upon the environment in which they are put to use. When "physical capital" is mismanaged and depleted it would seem unrealistic to expect human capital to be carefully preserved, augmented and utilized.

Human capital is much more difficult to measure and to evaluate than physical capital—a fact that may not have escaped advocates of new spending programs in this area. Nevertheless, it is possible to make some tentative assessments of the effectiveness of some human-capital programs that Western aid has helped sponsor.

Consider education. As a very rough rule of thumb, the literacy rate in a poor society today should be similar to its primary-school-enrollment ratio 20 years ago. In many developing countries, however, the situation is not what would be expected. According to the World Bank, for example, 74 percent of India's children

were enrolled in primary schools in 1965, but the nation's literacy rate in 1985 was only 43 percent. In Egypt, the enrollment ratio was 75 percent in 1965, but literacy was put at 44 percent by 1985. In Cameroon, the enrollment ratio was 94 percent in 1965, but the literacy rate in 1985 was estimated to be as low as 56 percent. In fact, for the nearly 3 billion people in what the World Bank calls "low-income economies," overall the enrollment ratio for 1965 was put at 74 percent, but the 1985 literacy rate was said to be only 56 percent.

Literacy, of course, is notoriously difficult to measure and define. Such substantial discrepancies, however, suggest something more fundamental: spending in the name of human capital can be wasted as unproductive public consumption, and often has been. The irony is that such wastage seems most likely to occur when governments restrict their societies from contact with the world economy—preventing them from participating in the "human-capital-building" learning process that has so demonstrably enhanced the productivity of nations at all economic levels in modern times.

In the final analysis, the economic impact of Western financial transfers on the countries of Asia, Africa and Latin America seems to have depended very largely on the attitudes and policies of the government in the recipient country. Taiwan and South Korea were both major beneficiaries of foreign aid in the 1950s and early 1960s, and South Korea was a major borrower of international capital in the 1970s and the early 1980s. They seem to have used these resources in ways that enhanced their overall economic productivity, improved their international competitiveness, and increased their abilities to take advantage of the growing opportunities afforded by world markets. But easy credit and free aid are not always put to such economically constructive purposes. They may also be used for quite different goals, and may even underwrite practices so injurious that they could not otherwise be pursued.

Restoring Purpose to U.S. Foreign Aid

To restore the effectiveness of U.S. foreign aid programs, one must begin by considering the purposes that these funds are supposed to serve and the problems they face in doing so.

Even though current U.S. foreign aid policymakers often fail to distinguish among them, three distinct and separate purposes underlie different U.S. foreign aid programs. First is the humanitarian goal of alleviating suffering and minimizing loss of life in the upheaval following sudden, unexpected catastrophe. Second is the developmental aim of encouraging poor nations to find their best path to improving economic health, self-sustaining growth and mass prosperity. The third objective is to promote the security of the United States and the U.S. concept of international order through military aid or security assistance to a foreign government. Military aid to less-developed countries is not governed by consideration of their immediate economic circumstances, but is part of a larger, global defense strategy.

These purposes are closely related. With its particular political values and preferences, the United States can achieve its greatest security in a world order that accepts the legitimacy of the free

international flow of information, trade, technology and capital; that does not question the right of people to act to improve their economic well-being; and that embraces the rule of law and the propriety of limited government. Moreover, the use of U.S. power to protect a system that offers countries and individuals the opportunity to participate in broad-based material advance is not only a strategic goal but an objective dictated by moral and humanitarian concerns. The liberal international economic order remains the best material hope for the world's poor and disadvantaged peoples. The United States can use its power—military, financial, moral—to protect that order. Just as the wedding of moral purpose and international power is fundamental to our view of our own nation, so it should govern our approach to foreign aid.

Humanitarian Aid

Private Voluntary Organizations (PVOs)* and the U.S. governmental relief agencies have developed an impressive competence in saving lives in famines and other disastrous emergencies. Americans have consistently proved that their compassion for people in distress is mitigated neither by the ideology nor the attitude toward the United States of the government of the stricken territory, as America's generous response to famine in Communist Ethiopia and disaster in Soviet Armenia most recently attest. America's dedication to humanitarian relief is meant as a basic commitment from one people to another and is founded on the belief that the sanctity of life creates transcendent obligations to action. U.S. policies toward humanitarian aid could better reflect these beliefs. To do so would require important changes in both the posture and the current relief policies of the U.S. government. Three steps should be taken immediately:

(1) Upgrade substantially the priority accorded emergency relief within our foreign aid policy. At present, less than 4 percent of the total AID humanitarian budget goes to disaster and emergency assistance. Even in the Food for Peace program, less than a quarter of budget resources have been directed to famines, emergencies and disasters in recent years.

(2) Make clear the delineation and division of labor between government efforts and nominally private voluntary organizations (some of which are currently dependent on the U.S. government for 80 percent or more of their operating expenses). PVOs have more flexibility than official U.S. relief efforts and can be considerably more cost-effective. On the other hand, there are some functions and services in emergency relief that the U.S. government can undertake more credibly than groups which are nongovernmental. As a general principle, the U.S. government should not displace voluntary charitable donations in its strategy of attending to emergencies.

(3) Improve early-warning systems to help prepare for famines and disasters. Aerial-surveillance information of the sort collected by the U.S. Department of Agriculture for its global crop assessment could be helpful in this regard, as could the Commerce Department's meteorological readings. Improved communication between private groups and governmental organizations could greatly strengthen the world's ground-based warning systems. The news media may also be an available and effective element in such warning systems.

An increased U.S. presence in famine and emergency relief will raise one important question, and it will also create an equally important problem. The question pertains to the appropriate role for international organizations and institutions—particularly such groups as the International Committee of the Red Cross and the UN Office of High Commissioner for Refugees. Such institutions, under specific conditions, have proven highly effective in saving lives during emergencies. Furthermore, such institutions have credentials of impartiality and internationalism despite critics' charges that they do not always live up to these ideals. The United States should thus be interested in encouraging international coordination and cooperation in relief activities. America's principal concern about their operations should be the extent to which political or other difficulties prevent them from contributing effectively to relief efforts. The United States should make it clear that it is eager to cooperate, but that it will also work alone, if necessary, to assist endangered peoples.

The important problem concerns the risk of "moral hazard"—the danger that an expanded U.S. commitment to famine and emergency relief may lead certain governments in the less-developed regions to ignore the distress of their citizens, or to encourage outright the creation of famine conditions. The moral hazard present in any humanitarian commitment is a problem that can never be completely resolved, but its risk can be minimized. One way is to make clear that emergency relief is temporary. The history of Unrra 40 years ago gives insight into the way such structures may be made effective. A second way is through international moral pressure. This is not an utterly reliable means of forcing governments to conduct themselves decently; neither, however, should its potential be discounted. Publicizing acts of state that result in needless death and distress can shame even the most hardened government. Such information may also affect a state's prospects for obtaining international economic aid.

Development Aid

Redirecting U.S. development policies to the job of encouraging self-sustaining economic growth will require major changes in both the operation and the direction of government agencies currently charged with promoting economic advances in less-developed countries.

Within a liberal international economic order, it is not the volume of concessional foreign aid that will set the ultimate constraint on a less-developed nation's pace of economic transformation and material progress. The constraint instead will in practice be set principally by its economic environment, and thus by its government's policies.

Current U.S. development policies pay strangely little attention to the economic climate in less-developed countries, or to the incentives and disincentives which this creates. Furthermore, America's development agencies sometimes seem to conduct a foreign policy that varies substantially from that of the State Department. To realign U.S. development efforts with the purposes of strengthening the liberal order and encouraging

improved government administration in developing countries, it will be necessary once more to provide technical assistance. Technical assistance was the guiding premise behind U.S. development policies in the early postwar period—the era when many aid recipients proved the success of the premise by graduating from aid dependence and moving into broad-based economic growth.

Many current programs will have to be altered or eliminated. A careful evaluation and review of existing programs will determine which programs encourage self-sustaining economic growth and increase government competence. New technical assistance programs might also have to be developed to meet the as yet unsatisfied needs in the less-developed countries (including, perhaps, the countries of formerly Communist Eastern Europe). In many areas, basic requisite know-how may not yet exist and may have to be created through research and development.

A reform strategy should include the following steps:

(1) *Remove institutional and legislative obstacles to effective U.S. development policies.* The purposes of AID or any successor organization should be identical with the purposes of U.S. foreign policy. To ensure this congruence, IDCA should be eliminated and AID should be brought fully back into the State Department structure. Congressional notification, restrictions on obligational carryovers and other special legislative stipulations that reduce the ability of development officers to design and implement programs efficiently should be rescinded.

(2) *Review American contributions to UN development activities.* To a distressing degree, the programs funded by the UN and subsidiary organizations in the name of development are hostile to the liberal international economic order. The United States should have no part in undermining the very order that helps to promote the spread of international prosperity, and UN programs which are not consistent with the goals of a liberal international economic order should not be subsidized. The United States should not be defensive or apologetic about disinheriting such activities; on the contrary, it should explain clearly and in appropriate detail the rationale behind each decision.

(3) *Cut back IDA and other "soft" lending for development.* There is little evidence that soft loans have special merit in promoting development. On the contrary, very often they seem to have had the unfortunate effect of confusing charity and commerce in the minds of recipients.

(4) *Work to redirect the World Bank and the multilateral development banks toward meeting their original goals—to support the liberal international economic order, promote technical assistance and encourage the creation of an investment climate that promotes economic activity in borrowing countries.* The World Bank's present activities are not always consistent with these original purposes. The World Bank, and other development banks, deserve examination, evaluation and review.

(5) *Reform Public Law 480 food aid.* America's Food for Peace program does not serve developmental goals. Ever since its inception in 1954, the program has been a concessional-sales vehicle, a commodity-disposal project providing a disguised subsidy to U.S. farmers. The impact of unloading subsidized food on the markets of less-developed countries has typically been destabilizing to local agriculture, and it has often reduced incomes within the rural sector (the poorest part of poor countries). Only a small fraction of current Food for Peace allocations currently goes to emergency or famine relief. A restructured Food for Peace program might increase the volume of food aid earmarked for victims of famines and disasters and diminish allocations for all other purposes.

(6) *Help build statistical competence in developing nations.* Governments in the less-developed regions may better pursue enlightened and informed social or economic policies when they have accurate information on social and economic conditions in their country. Demographic, economic and statistical training to strengthen the data-collecting infrastructure should be a priority in technical assistance programs. To the extent that knowledge carries moral obligation, better information on national social and economic conditions may also serve as an impetus for more-responsible policies in certain countries.

(7) *Increase technical assistance in agricultural research, engi-*

neering and medical sciences through U.S. universities. America's universities offer unparalleled opportunities for transfer of skills and knowledge to students from developing nations. A revised U.S. development program should consider ways in which the resources of America's universities might be put to greater international use.

(8) *Develop movable "policy hospitals."* For governments interested in loosening the constraints that injurious or inefficient economic policies currently place on the development process, U.S. teams with established expertise in management, business administration and law might be of considerable assistance. If these services are of value, of course, there is no reason why they should be provided free—or by the U.S. government.

(9) *Encourage governments in developing countries to respect and appreciate competitive markets.* One of the major tasks confronting a less-developed country is to develop a marketing infrastructure that conveys goods and services (and information) rapidly and cheaply. Developing countries must also learn about and understand international markets—including financial markets—if they are to take advantage of the opportunities of the international system.

In large part, "making markets work" is simply a matter of refraining from destructive interference in their operations. But there is more: societies and governments can take positive actions to create the atmosphere and to build the network upon which efficient markets depend. The United States has much to offer developing countries that wish to improve the functioning of their markets. America's business schools might usefully train more students and policymakers from less-developed countries in the practical specifics of market development. Making markets work will also depend critically on the extent to which a developing society is successful in building a sophisticated and competent financial infrastructure. Rule of law, respect for the rights of the individual, and respect for private property (a neglected prerequisite for privatization efforts) should be recognized as foundations for these processes.

(10) *Encourage our allies to reform their development policies.*

A renewed commitment to the principles of the liberal international economic order and to the goal of self-sustaining economic progress will be all the more effective if it is common to the Western nations. A dialogue on development reform with other donor nations could greatly increase prospects for combined development efforts.

Security Assistance

The premise underlying military and security assistance is that U.S. power in the world and the purposes that it serves are legitimate. For security assistance programs to function effectively, there must be a domestic consensus that the goals and conduct of U.S. foreign policy are decent and proper. More than any great power, possibly more than any other nation, Americans judge their country's international initiatives not on the basis of narrow national gains but by the broader and more demanding standards of moral purpose.

Security assistance cannot lead the United States to foreign policy consensus, but it can be part of the process that develops domestic support for overseas initiatives. It can do so, first and foremost, through the honest explanation of what it is and what it does. Security assistance is not a humanitarian program in any immediate sense. To be sure, the political order that the United States supports is expected, in some ultimate way, to promote humanitarian goals. But money for soldiers and police should in no way be confused with emergency relief for disaster victims.

Furthermore, security assistance is not a development program in any direct sense. Again, one may place hope and confidence in the ability of the international system the United States defends to provide opportunity for global economic advance. But it would be less than honest to suggest that security assistance programs are meant to spark self-sustaining economic growth.

Security assistance is instead an instrument to increase a regime's odds of political survival. Political survival is the first concern of governments, and understandably so: neither development nor any other positive aim of government can be pursued under an order that is self-liquidating.

Security assistance must be considered separately from humanitarian and development assistance, not only because its purposes are different but also because of a difference in the rules governing its effective application. Both humanitarian and development aid may have positive effects even when their totals are, in some sense, insufficient; half the money necessary to prevent all famine deaths will nonetheless have a positive impact on the suffering of the needy; one quarter of a technical assistance program will likely be better than no program at all. This is not true, however, with military or security assistance. If one is willing to commit only 95 percent of the resources necessary to win a war or stabilize a regime, one might as well commit no resources at all.

Following are three ways of improving the effectiveness of security assistance:

- *Remove the Economic Support Fund (ESF)* from AID.* Although some of the moneys allocated through the ESF do indeed go to development projects, this fact is, in essence, coincidental. The purpose of ESF is to attempt to buy political stability either through directly increasing local living standards with financial transfers or through resolving pressing balance-of-payment difficulties. These purposes are far better described as security-related than development-oriented, and thus ESF should be administered separately by the State Department or the Department of Defense.
- *Reduce the soft-lending component of U.S. security assistance funds and raise the direct grant component.* Soft lending for security assistance has seriously confused both donors and recipients over the distinctions between commercial transactions and strategic commitments. Making a clear distinction between military-security grants and military sales would have the salutary effect of forcing U.S. policymakers to define their objectives more clearly.
- *Reform the legislation governing security assistance.* Since 1974, when it was learned that Uruguayan police who had received U.S. security assistance were torturing political prisoners, Congress has prohibited providing security training or

assistance to nonmilitary organizations in any foreign country. These restrictions may have been passed with good intention, but their consequences have been perverse in practice. Many societies in Latin America have small standing armies; Costa Rica and several Caribbean states have no army at all. In such countries both national security and law enforcement duties fall under the aegis of the police force. Current laws thus prevent the United States from aiding such countries through security assistance programs. In recent years one Caribbean nation was invaded by Rastafarian revolutionaries intent on seizing the government; another country experienced a coup attempt by Ku Klux Klan renegades. In neither case would it have been legal for the United States to provide the necessary security help. To provide military or security assistance to many friendly societies in our hemisphere under present laws would require recipient countries to militarize, and thus alter their civilian tradition, or to request outright the stationing of U.S. troops on their territory.

Furthermore, an offer of security assistance from the United States can carry with it demands for political reform. In El Salvador in the early 1980s, for example, it is widely believed that right-wing "death squads" operated from within the sanctum of the national police; of all the government organizations in El Salvador, these were the only ones to which the United States could not provide money or, consequently, ask for reforms.

Conclusion

This study has argued that U.S. foreign aid policies should be used to reinforce American political, economic and moral purposes in the world because these purposes are fundamentally sound. There is a converse to this argument, and its implications are important. If U.S. fundamental purposes in the world are sound, then strengthening the power of the United States is a beneficial and effective form of "foreign aid."

Building American might is in part a military task, but only in part. America's economic strength, and its economic contribution to the liberal international economic order, will depend critically on the extent to which the nation remains true to its professed

principles of free trade and open markets. America's success in bringing governmental spending in line with revenue will have an impact on prospects for our own economic security and for the economic security of others. The U.S. performance in maintaining the dollar as a stable and reliable currency will have a continuing impact on the prospects for world commerce and international economic growth. Finally, the honesty and decency with which Americans conduct their international policies will have far-reaching consequences for the security of the United States and the ideas it represents, and the example the country presents.

Thirty-seven years ago, Eric Johnston, Point Four adviser to both Presidents Truman and Eisenhower, reflected on America's role in the world:

> I am one of those who believe the human wants of mankind are insatiable. The problem is how to provide an opportunity to meet them. . . . I believe that the foreign policy of America, though not clearly enunciated—and I wish we would clearly enunciate it—is to export the good things of the twentieth century to other peoples. It would be a terrible mistake for us to export but a portion of those things.

If one thinks of how little progress has been made in dealing with the underlying problem Johnston identified, his words may make us humble. Yet they remain words of enormous hope. What Johnston realized then, and what should be evident today, is that no other nation may ever have been in a better position than the United States to serve as champion for the cause of the world's poor. Even as America recognizes the awesome responsibilities that this implies, it should take heart from the extraordinary circumstances which have created a coincidence of interests between a strong and healthy United States and the prospects of advancement for the impoverished and unprotected peoples of the earth.

Talking It Over

A Note for Students and Discussion Groups

This issue of the HEADLINE SERIES, like its predecessors, is published for every serious reader, specialized or not, who takes an interest in the subject. Many of our readers will be in classrooms, seminars or community discussion groups. Particularly with them in mind, we present below some discussion questions—suggested as a starting point only—and references for further reading.

Discussion Questions

For many centuries, governments have given "foreign assistance" to other countries. The French gave aid to the United States during the American Revolution, for example. Why does the author believe that "development assistance" is so different from earlier forms of foreign aid? Do you agree with him? Give reasons.

The United States was instrumental in helping to establish the World Bank and the IMF in 1944 to help stabilize the postwar economy. Since the world economy looks very different today, is there still a need for these institutions?

What is the difference between "security assistance" and "development assistance"? Do you think one is more important than the other? Why? Do you agree with the author that the objectives of these two kinds of aid are often incompatible? Why?

Many governments believe that their foreign aid programs should be closely tied to promoting the national interest. Define the U.S. national interest and explain to what extent you think our foreign aid programs should be linked to it.

Some people argue that multilateral aid is good because it shields recipients from the pressures of any one donor. Others say that multilateral aid is less likely to be effective because there is less accountability to the suppliers of aid. Which view do you hold, and why?

How were "basic human needs" programs different from earlier development assistance programs? How important do you think direct intervention to reduce poverty should be in our foreign aid program?

Should the United States give foreign aid to governments that violate human rights? Explain your reasons.

In what ways would you like to see the U.S. foreign aid program changed?

READING LIST

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Baldwin, David A., *Economic Development and American Foreign Policy, 1943–1962*. Chicago, Ill., University of Chicago Press, 1966. A thoughtful overview of American development assistance policy and its evolution, from the creation of the World Bank and the IMF through the formation of AID.

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GLOSSARY

Agency for International Development (AID): Since 1961, the organization principally responsible for implementing the U.S. foreign aid program. AID administers the Economic Support Fund and development assistance programs—mainly multiyear projects. (See Economic Support Fund.)

basic human needs: A phrase referring to the increasing thrust of foreign assistance programs, since the early 1970s, to alleviate poverty through direct provision of goods and services to the needy in developing countries. (See New Directions legislation.)

bilateral aid: An aid transfer from a donor government to a recipient government. (See multilateralization.)

Bretton Woods conference: Formally known as the UN Monetary and Financial Conference, this meeting in July 1944, in Bretton Woods, New Hampshire, created the IMF and the World Bank as international financial institutions that could contribute to economic stability and postwar reconstruction and lead to a general expansion of world trade. (See International Monetary Fund, World Bank.)

conditionality: The concept and practice of making foreign aid contingent upon the policies or achievements of the recipient government (e.g., reducing inflation, improving human rights.)

convertibility: The ability to exchange or trade one "hard currency" for another, e.g., converting Italian lire into West German marks. When currencies are freely convertible, overseas trading partners are less likely to insist upon payment in their own national currency. (See floating exchange rate.)

debt relief: Refers to various methods for releasing developing countries from the obligation of repaying loans in full.

debt rescheduling: An agreement, typically between an international creditor and a debtor government, to alter the original terms of a previously contracted loan. A debtor may incur penalties in a rescheduling; it may also obtain debt relief.

Economic Support Fund (ESF): A program administered by AID to assist governments politically important to the United States. Support funds can be in the form of straight budgetary transfers, commodities or development projects. In the late 1980s, ESF accounted for about two thirds of AID's annual expenditures.

floating exchange rate: Since 1973, an arrangement whereby the major international currencies spontaneously adjust their exchange rates (or selling prices against one another) in accordance with international market forces.

Food for Peace: Also known as Public Law 480 (for the legislation that authorized it in 1954), Food for Peace was the earliest, and remains the principal, vehicle for U.S. food donations abroad. With the rapid growth of private international food trade, the program plays a much smaller role today.

Foreign Assistance Act (FAA): First passed by Congress in 1961 and amended subsequently on numerous occasions, the FAA is the enabling legislation for the U.S. development assistance program. AID was created by an executive order from President John F. Kennedy to comply with the requirements of the act. (See Agency for International Development, New Directions legislation.)

human capital: Resources, measured in terms of people, that can be augmented through education, health, skills, etc.

International Bank for Reconstruction and Development (IBRD): See World Bank.

International Development Association (IDA): See World Bank.

International Development Cooperation Agency (IDCA): An institutional umbrella above AID, established in 1979, formally separating AID from the direct authority of the U.S. Department of State. (See Agency for International Development.)

International Monetary Fund (IMF): The international financial institution established at the Bretton Woods conference to aid convertibility of currencies in the postwar era. Since the adoption of floating exchange rates in 1973, the IMF has increasingly concerned itself with the financial and debt problems of member governments. (See Bretton Woods conference, convertibility, floating exchange rate.)

less-developed countries (LDCs): A term for over 100 countries at varying levels of material attainment, virtually all of which receive development assistance from Western countries and international agencies.

liberal international economic order: The postwar trade and finance system devised at the Bretton Woods conference and supported by U.S. policy thereafter, wherein international flows of goods, services and capital would respond to market forces, with little government interference. (See Bretton Woods conference, New International Economic Order.)

Marshall Plan: Officially the European Recovery Program, but known for the U.S. secretary of state who proposed it; from 1948 to 1952, the United States transferred sizable quantities of aid to Western Europe to help restore economic activity to prewar levels in the hope of stabilizing America's allies in Europe, impeding Soviet expansionism, and attending to the humanitarian plight of war-devastated areas.

multilateralization: An aid transfer involving a number of donor governments, often directing their donations through the vehicle of an international institution, such as the UN or the World Bank. (See bilateral aid.)

New Directions legislation: Amendments to the U.S. foreign aid laws in 1973 that instructed AID to devote more attention and resources to the direct alleviation of poverty in recipient countries. (See basic human needs.)

New International Economic Order (NIEO): Proposed by representatives of the nonaligned bloc at the UN in the 1970s, NIEO envisioned an international economy with significantly more trade regulation, preferential programs and policies for low-income countries, and increased aid transfers from industrialized countries to low-income regions.

Point Four: A technical assistance program—the first development program—named for the fourth point in President Truman's proposals in his 1949 inaugural address. Point Four aid to low-income countries was primarily technical and scientific, and was intended to promote "self-sustaining

growth" in recipient countries. The Latin American countries were of particular concern. (See technical assistance.)

Private Voluntary Organizations (PVOs): nonprofit, tax-exempt charitable groups. Many PVOs from Western countries operate in low-income countries, aiding in times of emergency or regularly attending to problems of chronic poverty. Though private, PVOs today typically accept government money or goods.

privatization: A process whereby state monopolies and other government-owned enterprises, including industries nationalized by the state, revert to private ownership and control. In the 1980s, many aid agencies advocated privatization as a means of cutting government losses and improving economic efficiency in low-income countries.

project lending: Official loans to governments for capital-expenditure projects (e.g., highway construction, irrigation systems) expected to increase the productive capacity of the country and to generate good economic returns. Originally, most development assistance was project-oriented. (See basic human needs, structural-adjustment loans.)

security assistance: Foreign aid funds provided for dealing with political or military problems facing a friendly government (e.g., quelling an insurgency, resisting outside aggression, stabilizing a shaky regime) instead of attempting to hasten economic growth in a recipient country.

soft loans: Subsidized, or concessionary, lending, with interest rates below the level that would be available in the open market.

structural-adjustment loans: Also known as policy-reform loans, this lending vehicle, pioneered by the World Bank in the late 1970s, made funds available to recipient governments in exchange for promises to undertake politically unpopular but efficiency-enhancing economic measures. Unlike project lending, structural-adjustment lending is not expected to generate collateral. (See project lending.)

technical assistance: The principal form of development assistance in the early years of such aid, concentrating mainly on the transfer of scientific and technical know-how and capabilities that might help recipient countries improve their production and hasten material progress.

World Bank: Officially called the International Bank for Reconstruction and Development (IBRD), the World Bank was created at the Bretton Woods conference and was envisioned as an agency to promote international investment in countries devastated by World War II. Since the postwar recovery, the World Bank has been making loans and providing technical assistance to help economic development in its poorer member countries. Its affiliates today include the International Development Association (IDA), a concessional-lending facility with highly subsidized loans for the poorest member countries, and the International Finance Corporation (IFC), which is charged with making loans to private-sector concerns in LDCs. (See Bretton Woods conference.)

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